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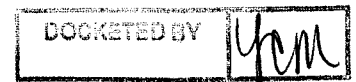
SALT LAKE CITY, UTAH

August 6, 1999
HAND DELIVERED

Arizona Corporation Commission
DOCKETED

AUG 06 1999

Jerry Rudibaugh
Chief Hearing Officer
ARIZONA CORPORATION COMMISSION
1200 West Washington
Phoenix, AZ 85007



Re: APS Settlement Agreement - Interim Code of Conduct
Docket Nos. E-01345A-98-0473, E-01345A-97-0773, RE-00000C-94-165

Dear Jerry:

Enclosed is the APS Interim Code of Conduct called for by Section 7.7 of the APS Settlement Agreement. APS witness Jack Davis had committed to provide you with this document by August 6, 1999.

APS previously circulated a draft of this document on July 30, 1999 to the parties at the settlement hearing and solicited questions or comments. The Company received responses from Arizonans for Electric Choice and Competition ("AECC"), Enron, Commonwealth, and the Arizona Transmission Dependent Utilities Group. These comments were reviewed and considered in finalizing this Interim Code of Conduct. Some changes were incorporated from the proposals of AECC, Enron, and Commonwealth. APS, however, understandably reserved the right to make the final decisions on the content of the Interim Code of Conduct.

Section 7.7 of the Settlement Agreement requires APS to serve on the Parties to the Settlement Agreement an Interim Code of Conduct within 30 days of Commission approval of the Settlement Agreement. If the Commission approves the Settlement Agreement as contemplated by Section 6.1 of the Settlement Agreement, then APS shall comply with this

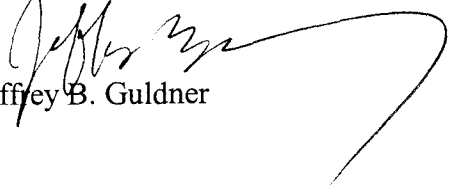
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Interim Code of Conduct until the Commission approves a different code of conduct for APS in accordance with the proposed Electric Competition Rules.

Very truly yours,

SNELL & WILMER


Jeffrey B. Guldner

JBG:mc

cc: Docket Control
All Parties on Limited Service List

ARIZONA PUBLIC SERVICE COMPANY

Interim Code of Conduct

Arizona Public Service Company ("APS") is committed to establishing standards of conduct that will produce confidence in the integrity of the competitive retail electric market and that will be consistent with the requirements of the Proposed Electric Competition Rules.

The following Interim Code of Conduct shall apply to APS and, where indicated, its Affiliates. It is adopted pursuant to the APS' pending Settlement Agreement. This Interim Code of Conduct shall remain in effect until replaced by any Code of Conduct or similar requirements set forth in the final Electric Competition Rules as adopted by the Arizona Corporation Commission.

1 Definitions

- 1.1 "Affiliate" or "Affiliates" means an Electric Service Provider related to APS in the manner described in A.A.C. R14-2-801 (1).
- 1.2 "APS" means Arizona Public Service Company in its capacity of providing Distribution Service and any other electric services permitted by law.
- 1.3 "Commission" means the Arizona Corporation Commission.
- 1.4 "Proposed Electric Competition Rules" means proposed A.A.C. R14-2-1601 et. seq., as set forth in Decision No. 61634 (April 23, 1999).
- 1.5 "Distribution Service" means those services described in proposed A.A.C. R14-2-1601 (12), i.e., "the delivery of electricity to a retail consumer through wires, transformers, and other devices that are not classified as transmission services subject to the jurisdiction of the Federal Energy Regulatory Commission."
- 1.6 "Electric Service Provider" or "ESP" means a provider of competitive electric services, as defined in proposed A.A.C. R14-2-1601 (14).

2 *General*

- 2.1 All employees and authorized agents of APS shall conduct their activities in compliance with the requirements of this Interim Code of Conduct.
- 2.2 Failure to conduct activities in compliance with this Interim Code of Conduct will subject the employee or agent to disciplinary actions described in Section 7.

3 *Financial*

- 3.1 *Subsidization.* APS shall not subsidize the competitive electric services provided by an Affiliate through any rate or charge for non-competitive electric services.
- 3.2 *Segregation.* Costs and revenues of APS will be segregated from costs and revenues of Affiliates in a manner sufficient to ensure that there is no subsidization of the business activities of Affiliates by any rate or charge for non-competitive services of APS.
- 3.3 *Books and Records.* APS will maintain its books of account and records separately from those of its Affiliates. As a precondition to transacting any business with APS, Affiliate books and records must be made available for inspection by the Commission to the extent reasonably necessary to determine compliance with this Interim Code of Conduct.

4 *Separation of Functions*

- 4.1 *Operations.*
 - 4.1.1 Except as otherwise permitted by law or in this Interim Code of Conduct, APS shall operate as a separate corporate entity from any competitive electric affiliate.
 - 4.1.2 APS shall not use shared corporate support functions as a means to transfer confidential customer information or create significant opportunities for cross-subsidization of its competitive electric affiliates. Except as permitted by this Interim Code of Conduct, APS will not jointly employ the same employees as its Affiliates. However, to provide for joint corporate oversight, governance and support, this provision shall not prevent APS and any Affiliate from having common Directors or Officers. An Affiliate may also contract for services from APS as long as a written service agreement is executed and the charges for such services comply with Section 6 of this Interim Code of Conduct.

- 4.1.3 Requests from Affiliates and non-affiliated ESPs and their customers for ACC-regulated services provided by APS shall be processed on a non-discriminatory basis.

4.2 *Administering Tariffs.*

- 4.2.1 Administration and enforcement of all Commission approved tariffs for APS, including terms and conditions of service, will be conducted solely by employees and authorized agents of APS.
- 4.2.2 With respect to the terms and conditions of providing Distribution Services subject to ACC approval (including price, curtailments, scheduling and priority), APS shall not provide its Affiliates, or the customers of its Affiliates, any preferential treatment over non-affiliated ESPs or their customers as a result of such status as an Affiliate or customer of an Affiliate.
- 4.2.3 If a tariff provision allows for discretion in its application, APS shall apply that provision in a non-discriminatory manner between an Affiliate and all other market participants and their respective customers.
- 4.2.4 APS shall not condition or otherwise tie any non-competitive service it provides nor the availability of discounts of rates or other charges or fees, rebates or waivers of terms and conditions of its service to the taking of any goods or services from an Affiliate.

4.3 *Promotion, Sales and Advertising of Non-Distribution Services.*

- 4.3.1 APS' name and logo shall not be used in written promotional or advertising material circulated by an Affiliate unless the Affiliate discloses that: 1) the Affiliate is not the same company as APS and 2) customers do not have to buy the Affiliate's product in order to continue to receive Distribution Service at regulated rates from APS.
- 4.3.2 APS will not engage in joint advertising, marketing or sales with its Affiliate.
- 4.3.3 APS shall not promote, market, or sell an Affiliate's services for or on behalf of an Affiliate.
- 4.3.4 APS shall not state or imply in any advertising or customer communication that the provision of any Distribution Service, or the terms and conditions governing such services, are conditioned upon, related to or tied to the purchase of any other product or service from an Affiliate. APS shall not offer or provide advice regarding an Affiliate to APS' customers nor state or imply that

Distribution Service provided to an Affiliate is safer or more reliable than those provided to a non-affiliate.

- 4.3.5 APS shall not offer or provide an Affiliate with advertising space in any APS written customer communication (e.g., billing) unless access is provided to non-affiliates on the same terms and conditions.

5 Access to Information

- 5.1 *System Information.* APS shall provide an Affiliate and non-affiliate ESPs access to Distribution Service-specific information (including information about available distribution capability, transmission access and curtailments) concurrently and under the same terms and conditions.
- 5.2 *Customer Information.* Non-public customer-specific information will not be provided by APS to an Affiliate or to a non-affiliate unless release of such information is expressly authorized by the customer or the Commission or is otherwise authorized or required by law.

6 Transactions with Affiliates

- 6.1 *Accounting.* Except where regulatory requirements provide otherwise, transactions between APS and an Affiliate will be accounted for in accordance with Generally Accepted Accounting Principles.
- 6.2 *Purchase of Goods and Services from Affiliates.* APS shall not purchase goods and services from an Affiliate at a price that is above the market price of such goods and services or, where a market price for any particular good or service is not readily available, at a price that is above the Affiliate's fully allocated cost, including a reasonable profit of providing the good or service.
- 6.3 *Sale of Goods and Services to Affiliates.* Goods and services sold by APS to an Affiliate shall be charged in accordance with any applicable tariff. Where a tariff is not applicable, such goods and services shall be sold at the market price or where there is no readily identified market price, at the fully allocated cost including a reasonable profit, of providing the good or service.
- 6.4 *Policies and Procedures.* APS shall maintain, or cause to be maintained, written policies and procedures regarding the accounting and segregation of costs as between APS and an Affiliate, which policies and procedures shall be made available to the Commission on request.

7 *Dissemination, Education and Compliance*

- 7.1 *Employee Access to Interim Code of Conduct.* Copies of this Interim Code of Conduct will be provided to employees of APS and all Affiliates and those authorized agents of APS and all Affiliates that are likely to be engaged in activities subject to the Code of Conduct. A copy of the Interim Code of Conduct will be maintained on the Company's electronic bulletin board known as Vista Public Folders.
- 7.2 *Employee Training.* Training on the provisions of the Interim Code of Conduct and its implementation will be provided to APS employees and authorized agents likely to be engaged in activities subject to the Code of Conduct.
- 7.3 *Compliance.* Compliance with the Interim Code of Conduct is mandatory. An APS employee's or agent's failure or refusal to abide by or to act according to such standards may subject the employee or agent to disciplinary action, up to and including discharge from employment or termination of the agent's relationship with APS.

Questions regarding this Interim Code of Conduct should be directed to the Law Department. Compliance with this Interim Code of Conduct will be administered as part of the APS Standards of Conduct program.